

Statement of Joseph (Joe) K. Kniceley,

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**Testimony before the
U.S. House of Representatives
Subcommittee on Financial Services and
Consumer Credit**

on

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in

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at

10:00 A.M.

***“Check Clearing for the 21st Century Act ”
H.R. 1474***

Chairman Bachus, and members of the Subcommittee, my name is Joe Kniceley. I'm the Vice President of the America's Region for NCR Corporation's Payment Solution business. Thank you for the invitation to offer testimony today.

Dayton Ohio based, NCR Corporation, has provided solutions to process financial transactions for American consumers since our inception in 1884. Today, NCR is a leading manufacturer of automated teller machines, check image processing solutions and retail store automation systems. Teradata, a division of NCR is the world's leading provider of customer relationship management solutions. Our corporate slogan – "Transforming Transactions into Relationships" summarizes the value we bring to our clients. We leverage our core competencies to provide technology based solutions that enable our clients to better service their customers. We do this by automating financial transactions that occur at an ATM, Bank Branch Teller, at the Retail Store Point Of Sale (POS) or by processing a mailed check payment.

Mr. Chairman, NCR is also honored to be part of a larger consortium of Information Technology companies including IBM, Unisys, EMC, and EDS. The members of our technology coalition and other companies have developed products that work together in an open and interoperable manner. NCR along with

the IT vendor and banking community have worked closely with the American National Standards Institute (ANSI) to insure that check image information will be secure and easily shared. ANSI Standard X9.37 defines the format and rules for “Electronic Exchange of Checks” and has a provision for applying a digital signature with each image being exchanged. This allows the “Receiving Bank” to validate the signature and determine that the image has not been altered. ANSI Standard X9.90 defines the “Image Replacement Document (IRD)” and is clear in its intent to maintain a high quality image, even after multiple image reproductions and it requires the original check MICR Line data to be printed on the Image Replacement Document. Our technology has several other features that prevent fraud in the imaging and data transfer process. Data is stored in an image archive database in a “Read Only” form, thus the original check image in the database cannot be changed and comprehensive audit trails log all data requests.

NCR and our coalition of IT companies can state that we wholly support H.R. 1474 without reservation or qualification. We believe the bill is well crafted providing adequate protections for consumers, financial institutions, and other entities engaged in check acceptance, presentment and clearing. As a result, we believe that the nations “end to end” payment system will be much more efficient and reliable.

Today, a check that is written at a grocery store may be handled more than 20 times before it reaches the bank upon which it is drawn. If the account has insufficient funds then the check has to be returned to that grocery store, repeating the process in reverse, thus taking several days without the store owner getting paid for the products sold. A check deposited at an ATM or at a bank branch teller may be handled over 15 times by personnel at the branch, courier company, bank check operations, clearing house and paying bank personnel. Again, if the “Paying Bank” returns the check for any reason, the process repeats itself in reverse. This costly, error prone, fraud ridden process started decades ago and the re-engineering and improvement of this process has not kept up with advancements in technology.

The application of the Check Clearing for the 21st Century Act used in conjunction with proven technology will streamline these key financial transactions which benefit all parties involved. With this legislation, funds can be transferred within hours not days or weeks to the store owner’s bank account. Digital checks can be archived for 7 years and researched on-line by simply accessing the bank’s Internet web site. Using this approach, a consumer that makes a bank deposit using checks drawn on another bank can now get quicker access to these funds because the transaction is cleared electronically. The elimination of moving paper checks

around the country addresses weather and logistic problems, not to mention unforeseen crises like the grounding of the nation's commercial air fleet during the events of 9/11.

Consumers stand to benefit in many ways. Business and bank branch hours can be expanded when the clearing "window" for checks is not tied to courier deadlines. ATM users, who make check deposits, will be provided superior service by obtaining a receipt of their deposits that include a digital picture of each deposited check. These deposits will quickly be processed electronically while the paper check still resides in even the most remote ATM location. A big benefit to consumers will be the early availability of deposited funds and the convenience of having more efficient deposit accepting ATM's on every street corner.

Financial institutions will benefit by getting items through the clearing process much more quickly with less room for error, at a lower cost. Imaging technology used in conjunction with H.R. 1474, will allow institutions to eliminate the constraints of paper, improve customer service, lower fraud losses, and significantly lower costs associated with physically transporting checks from coast to coast. To give the committee a sense of scale for cost savings, consider the following. According to the North America Clearing House Association

(NACHA), the Federal Reserve cleared nearly 17 billion of the 45 billion checks written in 2001. Saving just a fraction of a penny, per item would significantly lower overall costs.

Our technology coalition is pleased to inform the committee that the IT industry is ready, willing, and able to help our banking system deal with the realities of coast to coast consumer transactions. The technology exists today, which can implement all facets of H.R. 1474. Check Imaging was first put in production in the late 1980s. Most major banks, credit unions and nearly 50% of community banks have been using check imaging in one or more forms for many years. It is time to leverage more recent advances in communications, and information storage technologies to bring the check clearing process into the 21st Century. These technologies are readily available, proven to be secure and reliable today.

NCR believes that H.R. 1474 is the next logical step needed in America's evolving payment system. Frankly, our current rules for processing checks in the banking system were written for the time when items were cleared across town, not across the country. Over the past several years, banks are expanding to a national scope and this is creating a paper check clearing logistics nightmare. Good business

practice and the American Consumer's ever increasing demand for convenience require us to free our banking system from the needless constraints of paper.

NCR would like to commend Governor Ferguson and his staff at the Federal Reserve who worked on this issue for many years and we applaud their efforts with regard to this legislation. Through digital imaging technology and the proposed legislation, an American Institution called the "Checking Account", can now provide consumers, businesses, and financial institutions new and improved benefits not previously enjoyed.

Mr. Chairman, thank you for the opportunity to testify this morning, and I would be happy to address any questions you or the Subcommittee members might have.